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NEA FOR FRONT OFFICE, NSC FOR ABRAMS/DORAN/MUSTAFA

E.O. 12958: DECL: 04/03/2016
TAGS: [PREL](#) [PGOV](#) [PHUM](#) [KWBG](#) [KPAL](#) [IS](#)
SUBJECT: LUTHERAN WORLD FEDERATION REQUESTS USG
INTERVENTION ON JERUSALEM TAX ISSUE

REF: 05 TEL AVIV 5703

Classified By: Consul General Jake Walles, per reasons 1.4 (b) and (d).

This is a joint Embassy/ConGen cable.

¶1. (C) Summary. The Lutheran World Federation (LWF), owner and operator of Augusta Victoria Hospital in East Jerusalem, is facing a May 22 final hearing in the Israeli High Court on the hospital's tax liability to the Government of Israel (GOI) -- specifically an employer tax based on a 1967 agreement between GOI and the LWF. LWF representatives fear that they will lose the court case and find themselves subject to a multi-million dollar tax bill, which would force them to close a hospital serving 22,000 Palestinians per year. The LWF is seeking additional time to negotiate a settlement with the GOI that would reduce or eliminate the liability, and has asked the USG to approach the GOI on its behalf. Israel's MFA has indicated to the Embassy that it is seeking a way to settle the matter out of court. Visiting NEA A/S Welch raised the matter with FM Livni on March 30; Livni said the GOI was working on finding a creative solution. End summary.

LWF Requests
USG Intervention

¶2. (SBU) During a March 28 meeting with ConGen DPO, LWF representative Reverend Mark Brown and Bishop Munib Younan, the head of the Evangelical Lutheran Church in Jordan and the Holy Land, acknowledged that the LWF owes between USD 3-5 million in back taxes to the GOI, depending on the date at which the Israeli court fixes liability. Brown and Younan said that the LWF does not have the financial capacity to repay the taxes, and would be forced to close Augusta Victoria Hospital if forced to pay. The hospital, located in East Jerusalem on the Mount of Olives, provides specialty medical (oncology and nephrology) care to 22,000 mostly West Bank Palestinians each year. The hospital also employs 220 Palestinians living in Jerusalem.

¶3. (SBU) Brown and Younan indicated that they had no legal justification to request a postponement of the May 22 hearing before the Israeli High Court. They thought, however, that the presiding judge would postpone the hearing if negotiations between the LWF and GOI were ongoing. Absent a postponement, Brown and Younan said the LWF will lose the court case. Brown and Younan requested USG assistance in persuading the GOI to enter into negotiations. (Note: The German Government has reportedly agreed to weigh in on the issue with Israeli FM Livni. End note.)

Possible Solutions

14. (SBU) Brown and Younan said that one possible solution they had previously discussed with the MFA would be for the LWF to accept tax liability and for the GOI to reimburse the hospital and thereby allow it to remain functioning. While the MFA has expressed interest in the proposal, the various Israeli ministries (Health, Finance, Labor) expected to fund the reimbursement of approximately USD 500,000 per year have yet to agree, they said.

15. (C) The MFA director of the Division for Religious Affairs, Zvi Tal, told Emboff March 27 that the MFA is trying to facilitate an out-of-court settlement through an inter-ministerial committee and is currently seeking the support and intervention of the Prime Minister's Office (PMO). Tal said that the MFA sent a letter to the PMO suggesting that an out-of-court settlement be reached, but has not yet received a response. In a September 14, 2005 meeting with Emboff, Tal said that the GOI wishes to resolve the matter so that the hospital can continue its operations (see reftel). Tal said that one solution is for the GOI to provide state assistance to the LWF to offset its tax expenses.

16. (C) Visiting A/S Welch raised the matter in his March 30 meeting with FM Livni, passing to the FM a copy of a letter from LWF President Bishop Mark Hanson to the Secretary seeking U.S. support, or for a meeting between LWF General Secretary Reverend Dr. Ishmael Noko and FM Livni. FM Livni

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said the GOI is working on finding a creative solution to the problem. Welch asked Livni to accommodate the meeting request and to let the Embassy know when the GOI had developed a solution.

WALLES